

PERAC AUDIT REPORT



Hingham Contributory Retirement System

JAN. 1, 2002 - DEC. 31, 2005 / PERAC 05-43



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PERAC

COMMONWEALTH OF MASSACHUSETTS | PUBLIC EMPLOYEE RETIREMENT ADMINISTRATION COMMISSION

DOMENIC J. F. RUSSO, *Chairman* | A. JOSEPH DeNUCCI, *Vice Chairman*
KENNETH J. DONNELLY | JAMES M. MACHADO | DONALD R. MARQUIS | THOMAS TRIMARCO

JOSEPH E. CONNARTON, *Executive Director*


December 7, 2006

The Public Employee Retirement Administration Commission has completed an examination of the Hingham Retirement System pursuant to G.L. c. 32, § 21. The examination covered the period from January 1, 2002 to December 31, 2005. This audit was conducted in accordance with the accounting and management standards established by the Public Employee Retirement Administration Commission in regulation 840 CMR 25.00.

In our opinion, the financial records are being maintained and the management functions are being performed in conformity with the standards established by the Public Employee Retirement Administration Commission with the exception of those noted in the findings presented in this report.

In closing, I acknowledge the work of examiner Mary Dundas who conducted this examination and express appreciation to the Board of Retirement and staff for their courtesy and cooperation.

Sincerely,



Joseph E. Connarton
Executive Director



Hingham Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS

FOR THE FOUR-YEAR PERIOD ENDED DECEMBER 31, 2005

1. System Administration:

A review of meeting attendance by Board members revealed a significant level of absenteeism. Three members missed 25% or more of meetings held in 2002. One member missed more than 25% of meetings held in 2003. This increased to three members in 2004; while in 2005, all five Board members missed 25% or more of meetings held. Of the forty-nine meetings held between January 2002 and December 2005, the full Board was present at only ten of those meetings, or 20% of the time. One Board member has missed half of the meetings held thus far in 2006. This resulted in an attendance rate well below the seventy-five percent minimum considered reasonable for each of the four years evaluated. Such a level of absenteeism is considered to be excessive.

Recommendation: Attendance at Board meetings is an obligation that must be fulfilled by all Board members. It is the Board's responsibility to advise members who do not regularly attend meetings that they jeopardize their fiduciary duty to the retirement system. The Board should consider adjusting the scheduling of Board meetings in order to better accommodate its members. In extreme conditions, it may be necessary to take appropriate action with members who fail to maintain minimum attendance requirements.

Board Response:

The Board will comply with PERAC's recommendation. Should one or more members be unable to attend a meeting; the board will adjust the scheduling of board meetings to suit their work schedule. If a member is out-of-state, a conference call will be made if possible. Members of the Hingham Retirement Board take their fiduciary responsibility to the retirement system very seriously and will take any and all appropriate action necessary.

2. Executive Session:

The Board does not officially convene in Executive Session for the discussion of disability applications. Unless the member is present and formally requests the discussion be held in an open meeting, an Executive Session is required due to the sensitivity of personal health and medical information.

Recommendation: The Board must comply with the Open Meeting Laws of the Commonwealth, as described in G.L. c. 39, § 23B. The Board is required to record the minutes of executive sessions in accordance with 840 CMR 6.12 and 10.12(3)(e), and G.L. c. 32, § 20(5).

Board Response:

The Board will comply with PERAC's recommendation. The Board will hereon in, vote to meet in Executive Session when An Application for Disability Retirement is submitted to the board in accordance with 840 CMR 6.12 and 10.12(3)(e), and G.L. c. 32, § 20(5). Should the board discuss any personal health and/or medical information, it is held in the strictest confidence.

Hingham Retirement System

EXPLANATION OF FINDINGS AND RECOMMENDATIONS (CONTINUED)

FOR THE FOUR-YEAR PERIOD ENDED DECEMBER 31, 2005

3. Membership:

A significant number of members' withdrawal applications were incomplete. The Board utilizes its own form in lieu of Section C of PERAC's Application for Withdrawal of Accumulated Total Deductions. Section B was often not completed by the employing department or the member's supervisor. In many cases, responses as to whether the member's termination was voluntary or not were inconclusive. This information is essential to the accurate determination of the interest portion of the refund.

Recommendation: The Administrative Assistant must ensure that the required forms are completed and signed by the appropriate parties prior to issuing refunds to members exiting the System. Members' withdrawal applications must be completed in their entirety, so that no information is left open to question, and accurate refunds can be issued.

Board Response:

The Board will comply with PERAC's recommendation. The Board will complete "Section C" of PERAC's Application for Withdrawal of Accumulated Total Deductions in addition to processing the TACS Refund Breakdown form. The Board will make sure that the language *terminated* or *resigned from my position* in "Section A - To be completed by the Member" agrees with "Section B - To be completed by the Department Head" in order to accurately determine the interest portion of the refund.

Final Determination:

PERAC auditors will follow up in six months to ensure that the appropriate actions have been taken regarding all audit findings.

Hingham Retirement System

STATEMENT OF LEDGER ASSETS AND LIABILITIES

**FOR THE FOUR-YEAR PERIOD BEGINNING JANUARY 1, 2002
AND ENDED DECEMBER 31, 2005**

FOR THE PERIOD ENDING DECEMBER 31,				
ASSETS	2005	2004	2003	2002
Cash	\$384,456	\$220,266	\$300,639	\$325,026
PRIT Cash Fund	0	0	0	0
PRIT Core Fund	61,040,403	54,580,410	48,453,550	38,900,490
Interest Due and Accrued	0	0	0	0
Accounts Receivable	1,293,532	1,273,155	1,106,233	1,088,279
Accounts Payable	<u>7,193</u>	<u>6,179</u>	<u>11,740</u>	<u>97,299</u>
TOTAL	<u>\$62,711,198</u>	<u>\$56,067,651</u>	<u>\$49,848,682</u>	<u>\$40,216,496</u>
FUND BALANCES				
Annuity Savings Fund	\$14,210,182	\$13,224,298	\$12,375,446	\$11,553,343
Annuity Reserve Fund	5,250,283	4,906,016	4,767,376	4,510,048
Pension Fund	(1,037,287)	(1,210,743)	(1,138,648)	(843,636)
Military Service Fund	9,777	9,718	9,660	2,875
Expense Fund	0	0	0	0
Pension Reserve Fund	<u>44,278,244</u>	<u>39,138,362</u>	<u>33,834,848</u>	<u>24,993,866</u>
TOTAL	<u>\$62,711,198</u>	<u>\$56,067,651</u>	<u>\$49,848,682</u>	<u>\$40,216,496</u>

Hingham Retirement System

STATEMENT OF CHANGES IN FUND BALANCES

FOR THE FOUR-YEAR PERIOD BEGINNING JANUARY 1, 2002

AND ENDED DECEMBER 31, 2005

	Annuity Savings Fund	Annuity Reserve Fund	Pension Fund	Military Service Fund	Expense Fund	Pension Reserve Fund	Total All Funds
Beginning Balance (2002)	\$10,685,014	\$4,753,285	(\$272,286)	\$5,755	\$0	\$29,704,996	\$44,876,764
Receipts	1,429,535	137,429	2,770,352	40	269,936	(4,441,764)	165,527
Interfund Transfers	(166,842)	166,842	272,286	(2,919)	0	(269,366)	0
Disbursements	<u>(394,364)</u>	<u>(547,508)</u>	<u>(3,613,988)</u>	<u>0</u>	<u>(269,936)</u>	<u>0</u>	<u>(4,825,796)</u>
Ending Balance (2002)	<u>\$11,553,343</u>	<u>\$4,510,048</u>	<u>(\$843,636)</u>	<u>\$2,875</u>	<u>\$0</u>	<u>\$24,993,866</u>	<u>\$40,216,496</u>
Receipts	1,728,031	138,358	2,603,569	6,785	292,041	9,683,172	14,451,955
Interfund Transfers	(698,796)	697,349	843,636	0	0	(842,190)	0
Disbursements	<u>(207,131)</u>	<u>(578,379)</u>	<u>(3,742,217)</u>	<u>0</u>	<u>(292,041)</u>	<u>0</u>	<u>(4,819,769)</u>
Ending Balance (2003)	<u>\$12,375,446</u>	<u>\$4,767,376</u>	<u>(\$1,138,648)</u>	<u>\$9,660</u>	<u>\$0</u>	<u>\$33,834,848</u>	<u>\$49,848,682</u>
Receipts	1,756,688	142,168	2,842,889	58	317,123	6,441,103	11,500,029
Interfund Transfers	(638,466)	637,406	1,138,648	0	0	(1,137,589)	0
Disbursements	<u>(269,371)</u>	<u>(640,935)</u>	<u>(4,053,632)</u>	<u>0</u>	<u>(317,123)</u>	<u>0</u>	<u>(5,281,061)</u>
Ending Balance (2004)	<u>\$13,224,298</u>	<u>\$4,906,016</u>	<u>(\$1,210,743)</u>	<u>\$9,718</u>	<u>\$0</u>	<u>\$39,138,362</u>	<u>\$56,067,651</u>
Receipts	1,942,751	147,585	3,152,191	58	406,565	6,350,625	11,999,776
Interfund Transfers	(835,604)	835,604	1,210,743	0	0	(1,210,743)	0
Disbursements	<u>(121,264)</u>	<u>(638,922)</u>	<u>(4,189,478)</u>	<u>0</u>	<u>(406,565)</u>	<u>0</u>	<u>(5,356,228)</u>
Ending Balance (2005)	<u>\$14,210,182</u>	<u>\$5,250,283</u>	<u>(\$1,037,287)</u>	<u>\$9,777</u>	<u>\$0</u>	<u>\$44,278,244</u>	<u>\$62,711,198</u>

Hingham Retirement System

STATEMENT OF RECEIPTS

**FOR THE FOUR-YEAR PERIOD BEGINNING JANUARY 1, 2002
AND ENDED DECEMBER 31, 2005**

	FOR THE PERIOD ENDING DECEMBER 31,			
	2005	2004	2003	2002
Annuity Savings Fund:				
Members Deductions	\$1,561,924	\$1,439,010	\$1,347,848	\$1,224,436
Transfers from other Systems	41,664	48,942	92,444	36,784
Member Make Up Payments and Redeposits	92,897	101,456	122,668	22,727
Member Payments from Rollovers	168,370	95,403	53,581	0
Investment Income Credited to Member Accounts	<u>77,896</u>	<u>71,876</u>	<u>111,490</u>	<u>145,589</u>
Sub Total	<u>1,942,751</u>	<u>1,756,688</u>	<u>1,728,031</u>	<u>1,429,535</u>
Annuity Reserve Fund:				
Investment Income Credited Annuity Reserve Fund	<u>147,585</u>	<u>142,168</u>	<u>138,358</u>	<u>137,429</u>
Pension Fund:				
3 (8) (c) Reimbursements from Other Systems	139,284	91,895	87,757	87,291
Received from Commonwealth for COLA and Survivor Benefits	164,520	180,329	109,173	236,592
Pension Fund Appropriation	<u>2,848,387</u>	<u>2,570,666</u>	<u>2,406,639</u>	<u>2,446,468</u>
Sub Total	<u>3,152,191</u>	<u>2,842,889</u>	<u>2,603,569</u>	<u>2,770,352</u>
Military Service Fund:				
Contribution Received from Municipality on Account of Military Service	0	0	6,756	0
Investment Income Credited Military Service Fund	<u>58</u>	<u>58</u>	<u>29</u>	<u>40</u>
Sub Total	<u>58</u>	<u>58</u>	<u>6,785</u>	<u>40</u>
Expense Fund:				
Expense Fund Appropriation	0	0	0	0
Investment Income Credited to Expense Fund	<u>406,565</u>	<u>317,123</u>	<u>292,041</u>	<u>269,936</u>
Sub Total	<u>406,565</u>	<u>317,123</u>	<u>292,041</u>	<u>269,936</u>
Pension Reserve Fund:				
Federal Grant Reimbursement	31,775	20,932	11,807	17,333
Pension Reserve Appropriation	0	0	0	0
Interest Not Refunded	1,156	14,240	728	14,135
Miscellaneous Income	0	0	22	0
Excess Investment Income	<u>6,317,693</u>	<u>6,405,931</u>	<u>9,670,615</u>	<u>(4,473,232)</u>
Sub Total	<u>6,350,625</u>	<u>6,441,103</u>	<u>9,683,172</u>	<u>(4,441,764)</u>
TOTAL RECEIPTS	<u>\$11,999,776</u>	<u>\$11,500,029</u>	<u>\$14,451,955</u>	<u>\$165,527</u>

Hingham Retirement System

STATEMENT OF DISBURSEMENTS

**FOR THE FOUR-YEAR PERIOD BEGINNING JANUARY 1, 2002
AND ENDED DECEMBER 31, 2005**

FOR THE PERIOD ENDING DECEMBER 31,				
	2005	2004	2003	2002
Annuity Savings Fund:				
Refunds to Members	\$71,560	\$225,015	\$39,888	\$301,729
Transfers to other Systems	<u>49,704</u>	<u>44,356</u>	<u>167,244</u>	<u>92,634</u>
Sub Total	<u>121,264</u>	<u>269,371</u>	<u>207,131</u>	<u>394,364</u>
Annuity Reserve Fund:				
Annuities Paid	638,922	594,541	560,562	536,709
Option B Refunds	<u>0</u>	<u>46,393</u>	<u>17,817</u>	<u>10,799</u>
Sub Total	<u>638,922</u>	<u>640,935</u>	<u>578,379</u>	<u>547,508</u>
Pension Fund:				
Pensions Paid:				
Regular Pension Payments	2,982,488	2,847,906	2,720,198	2,548,324
Survivorship Payments	149,169	171,633	139,763	150,715
Ordinary Disability Payments	83,245	83,295	85,751	80,812
Accidental Disability Payments	485,132	406,648	340,483	342,029
Accidental Death Payments	201,789	245,133	169,409	186,492
Section 101 Benefits	13,827	13,414	13,014	13,054
3 (8) (c) Reimbursements to Other Systems	113,441	110,948	85,457	97,042
State Reimbursable COLA's Paid	160,387	174,656	188,144	195,519
Chapter 389 Beneficiary Increase Paid	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>4,189,478</u>	<u>4,053,632</u>	<u>3,742,217</u>	<u>3,613,988</u>
Military Service Fund:				
Return to Municipality for Members Who Withdrew Their Funds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Expense Fund:				
Board Member Stipend	0	0	0	0
Salaries	44,332	42,854	39,503	38,415
Legal Expenses	9,993	10,510	18,354	11,055
Service Contracts	3,011	11,024	5,817	3,389
Travel Expenses	866	826	638	1,347
Administrative Expenses	31,611	39,215	42,259	39,347
Furniture and Equipment	0	0	2,962	2,750
Management Fees	313,261	208,907	182,508	173,634
Fiduciary Insurance	<u>3,490</u>	<u>3,787</u>	<u>0</u>	<u>0</u>
Sub Total	<u>406,565</u>	<u>317,123</u>	<u>292,041</u>	<u>269,936</u>
TOTAL DISBURSEMENTS	<u>\$5,356,228</u>	<u>\$5,281,061</u>	<u>\$4,819,769</u>	<u>\$4,825,796</u>

Hingham Retirement System

INVESTMENT INCOME

**FOR THE FOUR-YEAR PERIOD BEGINNING JANUARY 1, 2002
AND ENDED DECEMBER 31, 2005**

	FOR THE PERIOD ENDING DECEMBER 31,			
	2005	2004	2003	2002
Investment Income Received From:				
Cash	1542.81	1389.52	\$1,965	\$5,254
Pooled or Mutual Funds	1,857,802	1,693,905	1,398,936	1,379,978
Commission Recapture	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL INVESTMENT INCOME	<u>1,859,345</u>	<u>1,695,295</u>	<u>1,400,901</u>	<u>1,385,233</u>
Plus:				
Realized Gains	3,503,059	3,345,934	1,294,917	61,933
Unrealized Gains	5,867,457	4,683,008	8,533,617	4,445,080
Interest Due and Accrued on Fixed Income Securities - Current Year	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>9,370,516</u>	<u>8,028,941</u>	<u>9,828,534</u>	<u>4,507,013</u>
Less:				
Realized Loss	0	0	114,476	1,335,532
Unrealized Loss	4,280,064	2,787,080	902,426	8,476,953
Interest Due and Accrued on Fixed Income Securities - Prior Year	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Sub Total	<u>4,280,064</u>	<u>2,787,080</u>	<u>1,016,902</u>	<u>9,812,484</u>
NET INVESTMENT INCOME	<u>6,949,798</u>	<u>6,937,157</u>	<u>10,212,532</u>	<u>(3,920,238)</u>
Income Required:				
Annuity Savings Fund	77,896	71,876	111,490	145,589
Annuity Reserve Fund	147,585	142,168	138,358	137,429
Military Service Fund	58	58	29	40
Expense Fund	<u>406,565</u>	<u>317,123</u>	<u>292,041</u>	<u>269,936</u>
TOTAL INCOME REQUIRED	<u>632,104</u>	<u>531,225</u>	<u>541,917</u>	<u>552,994</u>
Net Investment Income	<u>6,949,798</u>	<u>6,937,157</u>	<u>10,212,532</u>	<u>(3,920,238)</u>
Less: Total Income Required	<u>632,104</u>	<u>531,225</u>	<u>541,917</u>	<u>552,994</u>
EXCESS INCOME TO THE PENSION RESERVE FUND	<u>\$6,317,693</u>	<u>\$6,405,931</u>	<u>\$9,670,615</u>	<u>(\$4,473,232)</u>

Hingham Retirement System

STATEMENT OF ALLOCATION OF INVESTMENTS OWNED

(percentages by category)

FOR THE FOUR-YEAR PERIOD ENDED DECEMBER 31, 2005

	MARKET VALUE	PERCENTAGE OF TOTAL ASSETS	PERCENTAGE ALLOWED*
Cash	\$384,456	0.63%	100
PRIT Cash Fund	\$0	0.00%	100
PRIT Core Fund	\$61,040,403	<u>99.37%</u>	100
GRAND TOTALS	<u>\$61,424,859</u>	<u>100.00%</u>	

For the year ended December 31, 2005, the rate of return for the investments of the Hingham Retirement System was 12.75%. For the five-year period ended December 31, 2005, the rate of return for the investments of the Hingham Retirement System averaged 7.03%. For the twenty-one year period ended December 31, 2005, since PERAC began evaluating the returns of the retirement systems, the rate of return of the investments of the Hingham Retirement System was 10.81%.

Hingham Retirement System
SUPPLEMENTARY INVESTMENT REGULATIONS
FOR THE FOUR-YEAR PERIOD ENDED DECEMBER 31, 2005

The Hingham Retirement System has no supplemental investment regulations.

Pursuant to the authority vested in the Commission under G.L. c. 7, § 50, the Hingham Retirement Board's supplemental regulation regarding Authorization for Travel and Travel Related Expenditures was approved on July 17, 2002. Copies are available upon request.

Hingham Retirement System

NOTES TO FINANCIAL STATEMENTS

FOR THE FOUR-YEAR PERIOD ENDED DECEMBER 31, 2005

NOTE 1 - THE SYSTEM

The plan is a contributory defined benefit plan covering all Hingham Retirement System member unit employees deemed eligible by the Retirement Board, with the exception of school department employees who serve in a teaching capacity. The Teachers' Retirement Board administers the pensions of such school employees.

Instituted in 1937, the System is a member of the Massachusetts Contributory Retirement System and is governed by Chapter 32 of the Massachusetts General Laws. Membership in the plan is mandatory immediately upon the commencement of employment for all permanent, full-time employees.

The system provides for retirement allowance benefits up to a maximum of 80% of a member's highest three year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65 (for certain hazardous duty and public safety positions, normal retirement is at age 55).

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 75 - 85% pension and 15 - 25% annuity.

Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Members joining the retirement system after January 1, 1979 must contribute an additional 2% on regular compensation earned at a rate in excess of \$30,000. The percentage rate is keyed to the date upon which an employee's membership commences. These deductions are deposited in the Annuity Savings Fund and earn interest at a rate determined by the Executive Director of PERAC according to statute. When a member's retirement becomes effective, his/her deductions and related interest are transferred to the Annuity Reserve Fund. Any cost-of-living adjustment granted between 1981 and 1997 and any increase in other benefits imposed by state law during that period are borne by the state.

The pension portion of any retirement benefit is paid from the Pension Fund of the System. The governmental unit employing the member must annually appropriate and contribute the amount of current year pension payments as indicated on the most recent funding schedule as approved by PERAC's Actuary. Until recently, retirement systems were paying only the actual retirement benefits that were due each year.

Hingham Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR-YEAR PERIOD ENDED DECEMBER 31, 2005

Systems had no statutory authorization to put aside any money for the future benefits of employees who are now working. Large unfunded liabilities resulted from operating upon this pay-as-you-go basis. In 1977, legislation authorized local governments to appropriate funds to meet future pension obligations.

In 1983, additional legislation was passed requiring the transfer of investment earnings (in excess of the amount credited to member accounts) into the Pension Reserve Fund. These initiatives have significantly reduced the rate of growth of the retirement systems' unfunded liabilities, and in some systems have actually eliminated such liability.

Administrative expenses are funded through investment income of the system.

Members who become permanently and totally disabled for further duty may be eligible to receive a disability retirement allowance. The amount of benefits to be received in such cases is dependent upon several factors including: whether or not the disability is work related, the member's age, years of creditable service, level of compensation, veteran's status, and group classification.

Employees who resign from service and who are not eligible to receive a retirement allowance or are under the age of 55 are entitled to request a refund of their accumulated total deductions. In addition, depending upon the number of years of creditable service, such employees are entitled to receive either zero (0%) percent, fifty (50%) percent, or one hundred (100%) percent of the regular interest which has accrued upon those deductions. Survivor benefits are extended to eligible beneficiaries of members whose death occurs prior to or following retirement.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The accounting records of the System are maintained on a calendar year basis in accordance with the standards and procedures established by the Executive Director of Public Employee Retirement Administration Commission.

The Annuity Savings Fund is the fund in which members' contributions are deposited. Active members contribute either 5, 7, 8, or 9% of their gross regular compensation. Voluntary contributions, re-deposits, and transfers to and from other systems, are also accounted for in this fund. Members' contributions to the fund earn interest at a rate determined by PERAC. Interest for some members who withdraw with less than ten years of service is transferred to the Pension Reserve Fund. Upon retirement, members' contributions and interest are transferred to the Annuity Reserve Fund. Dormant account balances must be transferred to the Pension Reserve Fund after a period of ten years of inactivity.

Hingham Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR-YEAR PERIOD ENDED DECEMBER 31, 2005

The Annuity Reserve Fund is the fund to which a member's account is transferred upon retirement from the Annuity Savings Fund and Special Military Service Credit Fund. The annuity portion of the retirement allowance is paid from this fund. Interest is credited monthly to this fund at the rate of 3% annually on the previous month's balance.

The Special Military Service Credit Fund contains contributions and interest for members while on a military leave for service in the Armed Forces who will receive creditable service for the period of that leave.

The Expense Fund contains amounts transferred from investment income for the purposes of administering the retirement system.

The Pension Fund contains the amounts appropriated by the governmental units as established by PERAC to pay the pension portion of each retirement allowance.

The Pension Reserve Fund contains amounts appropriated by the governmental units for the purposes of funding future retirement benefits. Any profit or loss realized on the sale or maturity of any investment or on the unrealized gain of a market valued investment as of the valuation date is credited to the Pension Reserve Fund. Additionally, any investment income in excess of the amount required to credit interest to the Annuity Savings Fund, Annuity Reserve Fund, and Special Military Service Credit Fund is credited to this Reserve account.

The Investment Income Account is credited with all income derived from interest and dividends of invested funds. At year-end the interest credited to the Annuity Savings Fund, Annuity Reserve Fund, Expense Fund, and Special Military Service Credit Fund is distributed from this account and the remaining balance is transferred to the Pension Reserve Fund.

NOTE 3 - SUPPLEMENTARY MEMBERSHIP REGULATIONS

The Hingham Retirement System submitted the following supplementary membership regulations, which were approved by PERAC on:

December 2, 2005

Membership

The following regulation is applicable to and mandatory for all current and future employees of the Town of Hingham, Hingham Municipal Light Plant, Hingham Housing Authority and the Hingham School Department, excluding School Department employees who are eligible for membership in the Massachusetts Teacher's Retirement System:

Employees regularly scheduled to work twenty (20) or more hours per week shall join the Hingham Contributory Retirement System.

Hingham Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR-YEAR PERIOD ENDED DECEMBER 31, 2005

December 2, 2005

Membership (continued)

Employees working part-time and/or less than twenty (20) hours per week are not eligible to join the Hingham Contributory Retirement System.

Part-time seasonal, part-time temporary and/or part-time intermittent employees are not eligible for membership in the Hingham Contributory Retirement System.

Any active or inactive member who becomes a temporary, intermittent, or seasonal employee shall continue to be a member of the Retirement System.

Membership date will be based upon commencement of regularly scheduled twenty (20) hours or more of service to the member units.

Creditable Service

The following regulation is applicable to and mandatory for all current and future employees of the Town of Hingham, Hingham Municipal Light Plant, Hingham Housing Authority and the Hingham School Department, excluding School Department employees who are eligible for membership in the Massachusetts Teacher's Retirement System:

All full-time/part-time employees having been regularly scheduled and worked twenty (20) or more hours per week will receive one month of creditable service for each full calendar month in which the employee is receiving regular compensation for said service.

In addition, Hingham School Department employees whose employment requires them to work only 10 months (September 1 - June 30), shall receive one month of creditable service for each full month the employee received regular compensation, with 10 months being the equivalent of one year of creditable service. Said employees shall be granted one (1) full year of service credit if they return to that position the following September. They shall be granted credit only for the months worked if they do not return after summer break.

Buybacks/Make-Ups/Re-Deposits

The following regulation is applicable to and mandatory for all current and future employees of the Town of Hingham, Hingham Municipal Light Plant, Hingham Housing Authority and the Hingham School Department, excluding School Department employees who are eligible for membership in the Massachusetts Teacher's Retirement System:

Creditable service may be purchased one of three ways:

1. Lump sum payment.
2. Three equal payments distributed over the three""(3) consecutive months.
3. Via payroll deductions paid over a period not to exceed five (5) years.

Hingham Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR-YEAR PERIOD ENDED DECEMBER 31, 2005

December 2, 2005

Buybacks/Make-Ups/Re-Deposits (continued)

Creditable Service buyback payments must commence within 30 days of the date of acceptance by the Board. Regular interest (1/2 of the actuarial assumed interest rate) will accrue on any principal balance remaining on December 31st of each calendar year.

Creditable service for the purposes of buybacks will be calculated based upon the following (per calendar year):

Less than one (1) month No creditable service

One (1) month to eleven (11) months Month for month

Twelve (12) months One (1) year

One (1) year of credit for ten (10) months of service may only be granted for school employees whose work schedule is the academic school year.

When purchasing prior part-time service, if wage and/or salary documentation cannot be obtained, a W-2 form shall be supplied by the applicant. If the applicant cannot supply a W-2 form, he/she can request a hearing before the Retirement Board.

For the purpose of calculating buyback "months", the Hingham Contributory Retirement System will review the period of part-time service and will allow a month for each calendar month wherein an average of twenty (20) hours or more per week of service was provided to the member unit. No partial month creditable service will be granted.

For the purpose of calculating buyback "months" for a member whose work schedule is the academic school year, the Hingham Contributory Retirement System will pro-rate full months of service using the number of full months of actual service as determined above, divided by the ten (10) months of the academic school year. The quotient will then be multiplied by twelve (12) to determine the number of months of creditable service to be allowed under the buyback.

Employees may buyback their three (3) month probation period in accordance with and subject to, applicable laws and regulations.

Upon written request, and proper documentation of prior service, reserve or permanent-intermittent police officers who were on the respective list, eligible for assignment to duty and subsequently appointed to the Hingham Police Department as a permanent full-time employee, shall be credited as full-time service up to a maximum of five (5) years without repayment to the System in accordance with M.G.L c. 32 §4(2)(b).

Upon written request, and proper documentation of prior service, permanent-intermittent or call firefighters who were on the respective list, eligible for assignment to duty and subsequently appointed to the Hingham Fire Department as a permanent full-time,

Hingham Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR-YEAR PERIOD ENDED DECEMBER 31, 2005

December 2, 2005

Buybacks/Make-Ups/Re-Deposits (continued)

employee may purchase as full-time service up to a maximum of five (5) years in accordance with M.G.L c. 32 §4(2)(b).

Military Service Buyback

The following regulation is applicable to and mandatory for all current and future employees of the Town of Hingham, Hingham Municipal Light Plant, Hingham Housing Authority and the Hingham School Department, excluding School Department employees who are eligible for membership in the Massachusetts Teacher's Retirement System:

Employees who qualify as a "veteran" under G.L. c. 32, §4(1)(h) can purchase up to four (4) years of active service in the Armed Forces of the United States which will be added to their creditable service as a member of the Retirement System.

Any member who is a veteran must, within one hundred and eighty (180) days of being notified by the Hingham Retirement of his/her eligibility to purchase past service rendered in the armed forces of the United States, make application to purchase said service with the Board. Upon making such application, the member may purchase his/her past military service by paying an amount equal to ten percent (10%) of the regular annual compensation of the member when the member first entered their retirement system subject to provisions of M.G.L. c. 32, for each year the member wishes to purchase, not to exceed a maximum of four (4) years of service.

Military service may be purchased one of three ways:

1. Lump sum payment.
2. Three equal payments distributed over the three (3) consecutive months.
3. Via payroll deductions paid over a period not to exceed five (5) years.

Veterans with a legitimate hardship in purchasing their military time through the above methods can request a hearing before the Retirement Board.

Military service buyback payments must commence within 30 days of the date of acceptance by the Board. Regular interest (1/2 of the actuarial assumed interest rate) will accrue on any principal balance remaining on December 31st of each calendar year.

If any member is laid-off or his/her position is eliminated due to budgetary constraints, the buyback period will be suspended, and in the event that the member is rehired or resumes employment with the Town of Hingham and is then again eligible to contribute to the System, he/she must resume the installment schedule in effect prior to the layoff or termination. If the member voluntarily leaves employment with the Town of Hingham or is terminated for cause, the buyback period will not be suspended, and the Board will grant creditable service on a pro-rated basis consistent with the total amount due on the

Hingham Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR-YEAR PERIOD ENDED DECEMBER 31, 2005

December 2, 2005

Military Service Buyback (continued)

buyback and the amount remitted to the Board prior to the termination of employment.

In the event that a member transfers to another retirement system prior to the completion of the installment plan, the Board will determine the amount of service purchased based on the payments received, and accept liability for said service consistent with the provisions of M.G.L. c. 32, §3(8)(c).

June 13, 1994

Election Rules

Approval of election schedule to fill unexpired portion of elected member's term.

December 28, 1992

Full-time Service

Full-time employment shall be defined as 35 hours per week for administrative, clerical and library employees (32 hours per week for certain library employees); 40 hours per week for custodians, laborers and hourly rated employees; 42 hours per week for uniformed employees of the fire department and four consecutive eight-hour days followed by two consecutive days off duty for uniformed employees of the police department.

Part-time Service

Part-time employees employed as of January 4, 1993 but hired prior to January 4, 1993 and currently working 20 or more hours per week may elect to join the Retirement System upon completion of any probationary period as of January 4, 1993. If such employee elects to join or to continue membership in the defined contribution plan (PEBSCO) as of January 4, 1993 in lieu of joining the Retirement System, such employee shall not be eligible to join the Retirement System until after two years of membership in such plan. In addition, such employee may elect to buy back creditable service for all or part of the period January 1, 1992 to January 3, 1993 inclusive, if such employee by reason of date of hire is so eligible to buy back such service.

Membership

A part-time employee hired on or after January 4, 1993 and working 20 or more hours per week may elect to join the Retirement System upon completion of any probationary period. If such employee elects to join the defined contribution plan (PEBSCO) at the time of hire in lieu of joining the Retirement System, such employee shall not be eligible to join the Retirement System until after two years of membership in such plan.

Membership

Part-time seasonal, part-time temporary and part-time intermittent employees shall not be eligible for membership in the Retirement System.

Hingham Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR-YEAR PERIOD ENDED DECEMBER 31, 2005

November 27, 1990

Membership

To require full-time employment as a criteria for membership in the Retirement System. Full-time employment is defined as 35 hours per week for administrative, clerical and library employees; 40 hours per week for custodians, laborers and hourly rated employees; 42 hours per week for uniformed employees of the fire department. The work schedule for uniformed members of the police department shall be four consecutive 8 hour days on duty followed by 2 consecutive days off duty. School bus drivers who work a minimum of 25 hours per week when school is in session shall be included. Any employee who works full-time for eight or more consecutive months per year shall be eligible. If a full-time member in service of the Retirement System on October 1, 1990 becomes a part-time employee at any time after October 1, 1990, he or she may remain a member of the Retirement System. The above-stated policy applies to all employees hired by the town of Hingham on or after October 1, 1990.

December 18, 1984

Creditable Service

All part-time employees shall be granted one year membership service credit for each three years of part-time provisional or temporary employment.

Part-time employees:

Board of Registrars, Sealers of Weights and Measures, Child Clinic Doctor, School Dentist, School Doctor, Harbormaster, Town Hall Custodian.

Call firefighters were omitted from this definition because their creditable service is more specifically addressed in G.L. c. 32, § 4(2)(b).

Membership

Part-time employees who are employed for at least 34 consecutive weeks of not less than 24 hours each week, in every calendar year, must become members of the Retirement System.

Hingham Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR-YEAR PERIOD ENDED DECEMBER 31, 2005

NOTE 4 - ADMINISTRATION OF THE SYSTEM

The System is administered by a five-person Board of Retirement consisting of the Town Accountant who shall be a member ex officio, a second member appointed by the governing authority, a third and fourth member who shall be elected by the members in or retired from the service of such system, and a fifth member appointed by the other four Board members.

Ex officio Member: Ted Alexiades

Appointed Member: Thomas Hall Term Expires: 5/15/07

Elected Member: Eileen McCracken Term Expires: 6/30/08

Elected Member: Jean Montgomery Term Expires: 7/30/07

Appointed Member: Peter Blampied **Term Expires:** 2/1/06

The Board members are required to meet at least once a month. The Board must keep a record of all of its proceedings. The Board must annually submit to the appropriate authority an estimate of the expenses of administration and cost of operation of the system. The Board must annually file a financial statement of condition for the system with the Executive Director of PERAC.

The investment of the system's funds is the responsibility of the Board. All retirement allowances must be approved by the Retirement Board and are then submitted to the PERAC Actuary for verification prior to payment. All expenses incurred by the System must be approved by at least two members of the Board.

The following Retirement Board members and employees are bonded by an authorized agent representing a company licensed to do business in Massachusetts as follows:

Treasurer - Custodian:)	
Ex officio Member:)	MACRS policy:
Elected Member:)	\$ 1,000,000 Fidelity Bond
Appointed Member:)	\$ 50,000,000 Fiduciary Liability
Staff Employee:)	

Hingham Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR-YEAR PERIOD ENDED DECEMBER 31, 2005

NOTE 5 - ACTUARIAL VALUATION AND ASSUMPTIONS

The most recent actuarial valuation of the System was prepared by Mellon HR & IS as of January 1, 2004.

The actuarial liability for active members was	\$36,809,991
The actuarial liability for retired members was	38,450,847
The total actuarial liability was	75,260,838
System assets as of that date were (actuarial value)	53,284,103
The unfunded actuarial liability was	\$21,976,735
The ratio of system's assets to total actuarial liability was	70.8%
As of that date the total covered employee payroll was	\$16,669,815

The normal cost for employees on that date was 8.1% of payroll

The normal cost for the employer (excluding administrative expenses) was 6.8% of payroll

The principal actuarial assumptions used in the valuation are as follows:

Investment Return: 8.00% per annum

Rate of Salary Increase: 5.00% per annum

GASB STATEMENT NO. 25, DISCLOSURE INFORMATION AS OF JANUARY 1, 2003

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Cov. Payroll ((b-a)/c)
1/1/2004	\$ 53,284,103	\$ 75,260,838	\$ 21,976,735	70.8%	\$ 16,669,815	131.8%
1/1/2002	\$ 44,876,764	\$ 71,631,723	\$ 26,754,959	62.6%	\$ 14,811,862	180.6%
1/1/2000	\$ 48,884,485	\$ 57,861,551	\$ 8,977,066	84.5%	\$ 12,214,509	73.5%
1/1/1998	\$ 34,786,965	\$ 46,298,574	\$ 11,511,609	75.1%	\$ 10,898,418	105.6%
1/1/1996	\$ 24,236,711	\$ 42,461,163	\$ 18,224,452	57.1%	\$ 10,109,832	180.3%

Hingham Retirement System

NOTES TO FINANCIAL STATEMENTS (Continued)

FOR THE FOUR-YEAR PERIOD ENDED DECEMBER 31, 2005

NOTE 6 - MEMBERSHIP EXHIBIT

Retirement in Past Years	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Superannuation	5	0	2	12	16	6	5	13	12	12
Ordinary Disability	0	0	0	0	0	0	0	0	0	1
Accidental Disability	2	0	0	1	1	1	0	0	2	0
Total Retirements	7	0	2	13	17	7	5	13	14	13
Total Retirees, Beneficiaries and Survivors	242	231	238	235	252	245	237	247	251	241
Total Active Members	358	370	374	421	448	425	444	521	480	511
Pension Payments										
Superannuation	\$1,666,031	\$1,752,753	\$1,948,316	\$2,068,110	\$2,362,575	\$2,499,013	\$2,548,324	\$2,720,198	\$2,847,906	\$2,982,488
Survivor/Beneficiary Payments	70,110	94,522	95,939	94,639	119,882	118,254	150,715	139,763	171,633	149,169
Ordinary Disability	37,528	28,066	103,176	64,453	74,333	70,139	80,812	85,751	83,295	83,245
Accidental Disability	225,697	286,100	331,004	346,833	379,341	346,045	342,029	340,483	406,648	485,132
Other	<u>447,761</u>	<u>450,978</u>	<u>437,036</u>	<u>416,384</u>	<u>459,412</u>	<u>465,194</u>	<u>492,108</u>	<u>169,409</u>	<u>245,133</u>	<u>201,789</u>
Total Payments for Year	<u>\$2,447,127</u>	<u>\$2,612,419</u>	<u>\$2,915,471</u>	<u>\$2,990,419</u>	<u>\$3,395,542</u>	<u>\$3,498,645</u>	<u>\$3,613,988</u>	<u>\$3,455,603</u>	<u>\$3,754,614</u>	<u>\$3,901,823</u>

PERAC

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